

# Relating User Fees to the Cost of Service

Bourgas, Bulgaria

## Background

The City of Bourgas (population 210,000) recognized that it was collecting very little money for issuing building permits. The permit fees were based on a percentage of the estimated construction cost, which should have generated substantial income. Very little revenue was collected, however, because permit applicants' cost estimates were grossly understated and the city had no reliable data on construction costs. At the same time, obtaining a building permit took a great deal of time due to system inefficiency and an understaffed city department.

## Innovation

In spring 1995, the city decided to evaluate the permit issuing process and determine the true cost to the city of issuing building permits. The city designed a cost-of-service model that allowed it to calculate the direct and indirect costs, including both capital and operating costs, of issuing permits. Concurrently, each step in the process of issuing a permit was identified and analyzed. The city found that the cost far exceeded the revenue obtained from permit applications and that the permit issuing process could be substantially streamlined.

Based on the analysis of the cost of issuing a building permit the city decided to change its practices and enforce the existing law, which allowed the city to charge a fee based on the true cost of construction. To do this the city needed accurate data on building costs for use in determining the cost of a building permit. The Chief Architect was assigned responsibility for developing a database on current market prices. The city also recognized the need to convince the public that increased permit fees were justifiable and that permitting should be a "fee-based" service. A public media campaign was initiated to publicize the cost of service study, and the city made a commitment to use the increased fees collected to hire more staff and improve the permitting service.

## Results

The city has increased collections and hired more building inspectors. As a result, building permits are being processed more quickly. The new staff and increased user fees have also improved permitting by ensuring that permits are meaningful in that they meet health and safety standards. The city no longer accepts builders' cost estimates but uses its own database to estimate construction costs on which the permit fee is based. The predominant share (approximately 70 percent) of providing the permitting service is now supported by user fees, with a long-term goal of 100 percent.

The "cost-of-service" methodology developed can be used by other cities to undertake similar studies and establish an empirical and transparent basis for setting user fees for local government services. User fees can help to finance improved city services.

## Summary

**The City of Bourgas designed a cost-of-service model to calculate its true costs of issuing building permits. The city has increased collections and is processing permits more quickly, with increased staff and streamlined procedures.**

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